

October 4, 2002

Luly Massaro  
Commission Clerk  
Rhode Island Public Utilities Commission  
89 Jefferson Boulevard  
Warwick, RI 02888

**Re: Last Resort Service Pricing; RIPUC Docket 3444**  
**Response to RIPUC Request For Comments**

Dear Ms. Massaro:

The Public Utilities Commission ("Commission") has asked the Division of Public Utilities and Carriers ("Division") for its comments pertaining to the issue of the 4.5 cent floor for non-residential customers which is required by the currently effective tariff language in the Last Resort tariff. The price floor was approved by the Commission in its Order No. 16281 issued June 16, 2000 in Dockets Nos. 3117 and 3005 regarding Narragansett Electric Company's Last Resort Service rates and approval of the Last Resort Service contract. Prior to the issuance of that Order, the Last Resort retail prices had been the same as the Standard Offer retail prices. Establishment of separate retail prices became a critical issue at that time as market prices were rapidly rising, and the Last Resort retail load "had skyrocketed from 370,365 kwh in December 1999 to 27,154,126 kwh through March 2000..." (see Order 16281 pp.6-7). The load growth was the result of "725 commercial and industrial customers dropp[ing] their suppliers to take Last Resort service...." (Id. p.6).

In Order No. 16281 the Commission addressed the Last Resort pricing issue for the non-residential load and began a transition to cost-based rates.<sup>1</sup> By September of 2000, the Last Resort non-residential retail price was to be the market price, with one exception. That exception was that the price would not drop below 4.5 cents. An examination of the Commission's Order leads the Division to conclude that the primary

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<sup>1</sup> The terms "cost-based rates" and rates "priced at market" or "market-based rates" have the same meaning within the context of these comments.

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basis for the price floor was to allow for an over-recovery to offset the under-recovery incurred as a result of the transition. In siding with the Company's position in that proceeding (which called for pricing Last Resort service above the known contractual price for September and October, 2000) the Commission stated, "The Commission agrees with the Company that a LRS rate of 4.5¢ (or the market price, if higher) is more appropriate. To the extent that actual power costs decline in the autumn months below the LRS rate, there will be an opportunity to recoup some portion of the LRS under-recovery that is expected to accumulate over the summer months."<sup>2</sup> At present, the Last Resort service under-recovery has been addressed and is no longer an issue.

The Division is of the opinion that the price floor should now be eliminated from the Last-Resort non-residential rate. Narragansett Electric Company's contractual cost for the Last Resort supply is below 4.5 cents per kwh for the months of September through December, 2002, and again for May of 2003. In the absence of a significant deferred balance to address, the Division believes it would be appropriate to price the service at its cost for the non-residential class. If the Commission adopts this pricing policy, the Division recommends implementation effective November 1, 2002.

The Division appreciates the opportunity to provide these comments.

Sincerely,

Paul J. Roberti  
Assistant Attorney General  
Chief, Regulatory Unit

cc: Thomas F. Ahern, Administrator  
Service List

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<sup>2</sup> Order No. 16281, p. 21)